

May 23, 2018

Honorable Mayor and City Council
City of Conover
Conover, North Carolina

Dear Mayor and Members of Council:

The proposed budget for the Fiscal Year beginning July 1, 2018 is submitted for your consideration. The recommendations contained in this budget are the result of Council Retreat in February, and the Budget Workshops in May. The proposed budget represents many hours of analysis by the entire staff and presents a financially sound plan for the provision of municipal services at present levels.

Many of our partnerships have flourished this year such as; the Greater Hickory Metropolitan Planning Organization, the Western Piedmont Water Resources Committee with the Western Piedmont Council of Governments (WPCOG), and the Hickory-Conover Tourism Development Authority. These partnerships continue to benefit all involved by providing support and insight on complex issues facing our community and the region. Other partnerships, like the North Carolina Data Campus, have furthered regional cooperation and thinking. Conover has been at the forefront of regional initiatives to protect our resources, limit liabilities, and leverage taxpayer dollars.

Economic Development activities are more important than ever if the city is to be successful long term. The Catawba County Economic Development Commission (EDC), the Hickory-Conover Tourism Development Authority (TDA), and the WPCOG continue to share their expertise and assist the city and region as we looked for new and expanded opportunities to create jobs and expand resources. The City continues to maintain confidence in their ability to assist us with strategies to take advantage of all development opportunities by participating in regional planning and marketing efforts enhancing the city's appearance, and strengthening our relationships with existing industries, as we continue to provide an atmosphere where business can grow and prosper.

Council's continued aggressive economic development strategy has resulted in the expansion of investment in Conover. Think back to January of 2010, there were 2.5 million sq. ft. of industrial space completely vacant and another 3 million sq. ft. of space that was once served as manufacturing being used as warehousing. As of today, there are no vacant buildings available. Furthermore, our unemployment rate for the region is at 3.8%. Currently there are more than 3,000 job openings in the Catawba Valley. Conover has had a strong year for economic investment, though not as strong as 2016-2017, due to a lack of pad-ready sites and building availability. Some of our partnerships have included Profile Products expansion, Utiliserve new headquarters, Western Logistics, ICore Technologies,

Control Technologies, Corriher Implements and others. Council's investment in downtown is starting to pay off. Since the beginning of the downtown revitalization campaign, four new businesses have opened, and others are in the planning stages.

We should now focus on having pad-ready sites, spec buildings, and expanding our workforce in quantity and quality. Conover has developed partnerships with Catawba County Schools and Newton Conover Schools to help expand their internship and apprenticeship programs and partner with K-64. K-64 engages the student with work based learning, exposes them to technology in real work settings, and supports the teachers with help from industrial partners.

Most importantly, the city has benefited from our relationship with Manufacturing Solutions Center (MSC) and Catawba Valley Community College (CVCC) to create a sustainable strategy for economic development and true entrepreneurship. More than 10,000 people have toured the new MSC and the rapid prototyping and engineering division has tripled production. Current incubator client Silk Inc. is featured in Women's Wear Daily after securing \$23 million in investor funding.

MSC has celebrated its 26th year and now serves more than 1,500 companies in 35 countries, five continents and has become a recognized leader of innovation. To the point, NC State University has made several visits and is partnering with MSC to host graduate students of the College of Textiles. The City of Conover built their new facility in 2012 believing it would last for a decade or more before being expanded. The facility is full with equipment and incubator clients. Council will be asked to begin planning the next expansion later this year.

City staff continues to monitor state and federal agency activity as we struggle to plan and implement unfunded mandates. The General Assembly's changes to the sales tax redistribution formula in the long session has resulted in redistributing revenues to poorer less developed counties, while the utilities franchise tax has been rewritten to be a sales tax. In the past, all franchise taxes generated through electricity and natural gas were distributed back to the city. Under the new sales tax scheme, it is shared across the state based upon population. Municipalities were give a bottom threshold, a minimum, a so called "hold harmless". Our minimums happen to occur while the recession is still affecting our economy before the resurgence of American manufacturing. As a result, Conover has lost out on the growth of revenue generated by the recovery. Crude oil prices are now on the rise after being stable for nearly five years. With higher energy prices, we predict an increase in paving, plastic, and steel parts. We have maintained fuel line items but I fear they may not be enough.

Historically, the City of Conover reserves cash funds, in some cases, for many years to purchase essential equipment like fire trucks, tractors, snow plows, and sanitation trucks without borrowing. Over the last 10 years, Conover continues to see revenues once generated from retail sales, manufacturing, and licensing fees, used for these major purchases, eliminated by the NC General Assembly. The NC General Assembly has cut revenues to Conover by nearly \$600,000 annually and continues to introduce legislation

that curtails the ability of cities and counties to govern. Council has taken on the challenge to set aside ad valorem taxes for reserves and limited borrowing money to avoid paying interest rates.

These reserves and low debt burden have facilitated Moody's improving Conover's bond rating to Aa2. In order to mitigate attacks on city revenues by the General Assembly, in fiscal year 2014, Council wisely decided to increase the tax rate by .03¢. Two of the three cents went to replace some of the revenue repealed by the General Assembly, and used for General Fund Capital Reserves. The other penny was dedicated to maintaining streets and paving throughout the city.

The proposed budget increases the tax rate from .47¢ to .50¢ and to implement a \$30.00 per Motor Vehicle Tax (MVT). These actions help the city become more independent of state revenues. These new revenues will help fund the following. The first .01¢ will fund the proposed 13% average increase from Duke Energy. The increase in electrical rates could cost the city as much as \$11,000 more per month just to keep the lights on and maintain basic services. The second .01¢ will fund the city's debt obligation for the razing and rebuilding of the 60+ year old Fire Station #2. The city entered into an agreement with Catawba County to house a new EMS base at Fire Station #2, in doing so they agreed to fund \$93,000 per year for 10 years toward the debt. The last .01¢ will fund general fund operations and reduce the city's longtime dependency on Fund Balance. The proposed budget will have the lowest General Fund Balance appropriation in more than 20 years.

The new \$30.00 MVT will fund paving throughout the city. Currently the city subsidizes the Powell Bill allocation by .01¢ because Powell Bill funds continue to fall by more than 1% annually. Powell Bill funds are based upon population and number of lane miles in a city. As the more urban areas continue to grow and expand, the exurban and rural areas will continue to loose revenue. By implementing the MVT, Council has created a stable revenue to maintain city street infrastructure. The .01¢ once used for paving can now be transferred to general fund capital reserves. Capital reserves are now made up of .03¢ ad valorem, revenue from the cell tower leases, and sale of surplus property. With the transfer of this penny, Council has created a stable revenue to maintain long term capital reserves and most importantly prevented the need for future councils to borrow money and pay interest.

It is because of the Council's focus on basic municipal services, conservative fiscal nature and sound long range planning that we enter the 2018-2019 year optimistically. In order to provide the same level of service expected by our citizens and meet our debt obligations, I recommend increasing the tax rate from .47¢ to .50¢ and to add the \$30 per vehicle MVT for the 2018-2019 budget.

Conover's sanitation service is well known as comprehensive and efficient. These essential sanitation services include street sweeping, recycling, garbage removal, white goods removal, leaf removal, grass clippings, and limb collection. These services are vital, noticed by our citizens, and provide a great service for everyone. Staff ran the Sanitation Department with obsolete and recycled equipment for more than a decade. The Street

Department often used their capital reserves to fund leaf collection machines and street sweepers to assist the Sanitation Department. The proposed budget includes a capital reserve fund for future sanitation trucks, and equipment purchases. Catawba County has increased landfill tipping fees by \$2.00 per ton. They have informed the municipalities and private contractors to expect fee increases over the next five years. I recommend maintaining the Landfill Fee at \$14.00 per month for every customer.

For 2018-2019, our prior estimates of a 1.01% increase in real property tax value have been proven correctly. I am confident we have estimated revenues conservatively. Our current ad valorem estimated revenue is \$5,450,000 assuming a conservative 98.75% collection rate. Conover has traditionally budgeted general fund balance, and usually returns most of it, last year we decreased fund balance \$657,232, and for fiscal year 2017-2018, we estimate to spend \$697,974. The proposed budget has a \$75,976 unreserved general fund balance appropriation and a \$26,985 general fund balance appropriation reserved by state statute for Powell Bill purposes.

GENERAL FUND

The Conover City Council understands this budget has been challenging for our Department Heads as they have looked for additional ways to reduce expenses. Every line item in this budget has been up for discussion. Exceptions have been personal safety equipment required for city staff and a reduction of services for our citizens. The proposed budget is based on an assessed valuation of \$1,104,302,915, a net value increase of \$28,225,618. This year's general capital fund includes; replacement of a four post vehicle lift in Fleet, engineering and construction for Public Works addition, replacement of a half-ton pickup truck for Public Works, replacement of a mid-sized dump truck and a snow plow unit in Street Department, replaces a 1997 leaf vacuum in the Sanitation Department, and replaces a 2002 pickup in Cemeteries and Grounds. This budget provides for no new positions.

The budget provides funding for annual commitments for park equipment replacements to improve safety and comply with ADA standards. It funds the maintenance of the City's facilities, right of ways and streetscapes. It funds street repair, sanitation services, and fleet operations. Paving streets and extending the life of our street network is one of the primary focuses. It also includes the city's participation in many regional organizations such as the Western Piedmont Council of Governments, the Greater Hickory Metropolitan Planning Organization, the Western Piedmont Regional Transportation Authority, the Catawba County GIS Consortium, and the United Arts Council.

WATER AND SEWER FUND

The water and sewer operating fund is in stable condition. Council and staff achieve this by leveraging key partnerships to keep our rates among the lowest in the state. Ongoing maintenance and inspections keep our system from falling into a state of disrepair and keeps basic life giving services such as clean water affordable. The proposed budget will increase the rate on water and sewer usage by 3.0%. The increase includes a 2.1% pass

through on water purchased from the City of Hickory. The average customer uses 5,000 gallons per month equating to an additional \$1.50 per month.

In addition to the 3% rate increase, staff recommends increasing the monthly fixed charges by \$5.00 for a 3/4" meter. This new fixed charge will go directly to capital reserves for future upgrades to the 45 year old NE Waste Water Treatment Plant (NEWWTP) over the next 12 years. Future capital needs include: head works rehabilitation, equalization basin, aeration basin, and future treatment capacity. With the increase in fixed charges for capital reserves, I recommend council abandon the System Development Charges for the following reasons. These charges are based solely upon growth and have no consistency. Annual generated revenues are 90% less than annual capital improvement needs. The city routinely offered to waive these fees as incentives for new and expanding industrial clients. The majority of the fees collected came from school expansions and connections. Furthermore the NC Supreme Court and The General Assembly created a costly process for the implementation of these fees.

The list of capital improvements for 2018-2019 include; engineering fees for Hanes Pump Station Rehab, NEWWTP aeration project, and funds for future water and sewer shelf projects. Capital construction for: Fairgrove Meter Vault upgrade, expanding the SCADA monitoring sites, sewer outfall line replacement behind GDS, aeration at NEWWTP and, phase six of the Automated Meter Replacement. Additionally, this budget prepares the way for future partnerships with Catawba County. The county has revamped their utility tax and allow for better rates and terms for the municipalities, and the use of funds within the corporate limits.

CAPITAL PROJECT RESERVE FUNDS

Major projects in this year's Capital Reserve Plan include a reserve for water capacity upgrades, a reserve for NEWWTP, and the replacement of the water line on Deer Run, Rock Barn Water System Phase 1. Reserve funds also include the reserve for a future fire engine, and bulletproof vest upgrades for Police. In the Sanitation Department, we have a reserve for replacement of future solid waste recyclable materials handling equipment, reserve to replace the 2003 rear load garbage truck, 2007 hook lift truck and reserve for the construction of a new sanitation storage facility. In the Fleet Department; reserves for inventory room improvements, roof replacement, and a service truck replacement. We also reserve for dump truck replacement in the Street Department, and a reserve for Technology to replace network switches, GIS, and Asset Management software.

SUMMARY

Listed above are the major components of this year's program of work. In addition to items funded in the annual budget, the city will continue the many multi-year projects that are underway including the completion of revitalizing downtown and the expansion of Conover City Park. Conover has a long history of having little or no fees, but with the current economic situation and the Council's strong desire to maintain a low tax rate, I

recommend adopting the Schedule of Fees, with an increase in the rate and fixed charges for water and sewer to meet our long term capital needs at the NEWWTP, and to establish the Motor Vehicle Tax to fund our paving plan, and offset transit costs.

In conclusion, this year's budget is based on your direction, the city's long range plans, and input received from citizens throughout the year. It includes added attention to those items that will make us competitive in this economic environment, addresses regulatory challenges, and maintains our present level of service. It focuses on basic municipal services and is our best effort to predict future needs. It builds on past decisions and looks optimistically to the future. This plan of work is the culmination of many hours of thought and work by you, the staff, and the city's volunteers serving on our appointed boards. The budget considers state and federal fiscal issues and their potential effects on the city. It also weighs the impact of falling revenues, a rebounding economy, increasing mandates, future partnerships, and debt necessary for infrastructure improvements. The budget, as presented, will maintain the current level of city services and allow us to live reasonably within our means.

I am proud of the professional manner in which the city staff assisted with the preparation of this budget, and I commend each of them. We stand ready to assist you in any way possible as we move to adopt this budget for the fiscal year 2018-2019.

Sincerely,

A handwritten signature in dark ink, appearing to read "Donald E. Duncan Jr.", written over a horizontal line.

Donald E. Duncan Jr.
City Manager, ICMA-CM